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To: All Departments and School Fiscal Officers

From: Thomas J. Cook, Secretary 
Department of Finance

Date: January 5, 2011

Subject: Recording Payroll Deductions in First State Financials

When payroll transactions were processed in DFMS, the deductions made on behalf of employees were recorded to a type 20 appropriation. The dollars deposited were recorded as "revenue," which is not in compliance with Generally Accepted Accounting Principles (GAAP). This practice occurred because DFMS was unable to handle the proper accounting of these transactions; however, state organizations were able to pay their payroll deductions from the revenue account.

With the implementation of the First State Financials, payroll transactions will be recorded in compliance with GAAP. Accordingly, payroll deductions will be recorded as a liability. State organizations will be expected to pay these liabilities directly from those liability accounts. We apologize for any delay that may have occurred in communicating this change.

Questions regarding this memo should be directed to a Dawn Haw-Young in the Department of Finance's Division of Accounting (302-672-5516).